

May 1, 2012

To: Members,
Finance and Administration Committee

Re: Debt Limit

RECOMMENDATION

That the Deputy City Manager & CFO make application to the Saskatchewan Municipal Board to have the City's debt limit increased to \$350 million.

CONCLUSION

The City will require external financing to fund the Water and Sewer Utility Capital requirements and the General Capital requirements in the 2012 - 2016 period. The budgeted capital plans project an external financing requirement for 2012 through 2016 in the amount of \$201.86 million. In addition to the budgeted capital plans, independent capital projects such as Regina Public Library (RPL) Central Branch redevelopment and the Regina Revitalization Initiative (RRI) anticipate additional external financing requirements. The potential future financing of these capital requirements could exceed \$200 million, and as a result it would be prudent to seek an increase to the current debt limit.

It is important to be in a position to arrange financing for capital projects when the markets are receptive and rates are viewed as being reasonable. An important first step is to ensure that the City's debt limit as approved by the Saskatchewan Municipal Board is adequate to allow for the required financing.

The final authority for actually issuing new debt rests with City Council through the passage of the necessary bylaw, which will happen in the future when cash flows dictate that new debt will be required.

BACKGROUND

The purpose of this report is to seek the authority to submit a request to the Saskatchewan Municipal Board for an increase in the City's debt limit in anticipation of future capital financing requirements.

The long-term debt of the City is subject to the provisions of *The Cities Act* and the debt limit as authorized by the Saskatchewan Municipal Board. The following are the applicable sections of *The Cities Act*:

"101(1) No Council shall delegate:

(f) its power to borrow money, lend money or guarantee the repayment of a loan pursuant to section 133 to 153;

133(1) The Saskatchewan Municipal Board may establish a debt limit for each city, taking into account the factors set out in subsection 23(2) of *The Municipal Board Act*.

(2) No city shall borrow money if the borrowing will cause the city to exceed its debt limit, unless the borrowing is approved by the Saskatchewan Municipal Board.

134(1) A city may only borrow moneys if the borrowing is authorized by a borrowing bylaw.

(2) A borrowing bylaw must contain details of:

- (a) the amount of money to be borrowed and, in general terms, the purpose for which the money is to be borrowed;
- (b) the rate or rates of interest, the term and the terms of repayment of the borrowing; and
- (c) the source or sources of money to be used to pay the principal and interest owing under the borrowing."

Legislation allows for cities to incur long-term debt without application to the Saskatchewan Municipal Board providing the debt does not exceed the amount authorized by the Saskatchewan Municipal Board pursuant to Section 133(2). In 2008, the City requested and received approval from the Saskatchewan Municipal Board for a debt limit of \$200 million.

During 2012, City Council indicated its intention to pursue debt financing for Street Infrastructure, Recreation Facilities, and Utility water supply and distribution, water treatment plant and wastewater treatment plant expansion that will total about \$201.86 million over the next five years. The current outstanding debt as of December 31, 2011, is \$89.9 million and depending upon the timing of debt issues and repayments, the \$200 million limit will not be adequate.

The Saskatchewan Municipal Board requires the following information to support an application for an increase in a City's debt limit:

- (i) **Resolution:** Signed, certified and sealed copy of council's resolution requesting the board to establish a debt limit and the requested amount of the debt limit
- (ii) **Financial Statements:** Copy of the latest audited financial statement. Additional information identifying any significant changes in the financial health of the municipality since the latest audited financial statement, include information on any new debt incurred, cash or reserve changes, and contingencies.
- (iii) **Budget:** Copy of the current year budget including an indication if it is draft or approved.
- (iv) **Financial Update:** Copy of the latest monthly trial balance. If the financial statement for the prior calendar year is not available, provide the trial balance as of December 31st for that year, plus the trial balance to date for the current calendar year.
- (v) **Capital works plan:** If no capital works plan, itemize a listing of proposed works for the next 5 years, with estimated costs and financing.
- (vi) **Explanation of dollar amount requested to be the debt limit:** Provide a break down of how the debt is and is proposed to be used. Include information on future projects and debt related to those projects.
- (vii) **Economic Indicators:** Provide information that will assist the committee in understanding the overall economic conditions of the municipality.
- (viii) **Contact information.**

This report deals with an application for an increase in the City's borrowing limit only. Any specific borrowing would require approval of a borrowing bylaw by City Council.

DISCUSSION

The 2012 to 2016 Utility Capital Budget indicates that in the period 2012 through 2016, approximately \$136 million in debt financing will be required to fund utility capital; primarily the expansion and upgrade of the wastewater treatment plant to meet regulatory requirements. On December 20, 2010 City Council approved a three year rate schedule which includes rate increases necessary to fund the utility capital over a twenty year time frame, but significant borrowing will still be required to meet the cash flow requirements.

The 2012 to 2016 General Capital Budget indicates that approximately \$13 million in debt financing will be required to fund street infrastructure renewal and the North Central Shared Facility. Council also approved \$5 million debt financing in both 2011 and 2010 mainly for street infrastructure renewal. Both of these debt commitments have not yet been issued as the City's cash position has not required an issuance of new debt.

In the near future, two other capital infrastructure projects may require debt financing; RRI and the RPL. Debt requirements for these projects are unknown at this time, but the total debt for these projects could exceed \$100 million. The RPL debt requirements will be confirmed, once the RPL Board makes a recommendation to City Council. The RRI debt requirements will be determined over the next several months, as plans and funding arrangements are finalized.

There a number of uncertainties regarding the timing of the cash flows related to these two major projects. At the present time, interest rates are relatively low, but that may change. It will be important for the City to be able to react quickly to cash flow requirements and changing market conditions. As a result, it is important to ensure that the debt limit does not become a constraining factor during the financing activities. As well, by increasing the debt limit now we will not slow down any projects that may occur in the future. Consequently, the Administration is recommending that this process be initiated, although the cash requirements and borrowing will not likely happen for several months or perhaps into following years.

The City's position relative to the authorized debt limit of \$350 million is as detailed in the following table.

Existing Debt, January 1, 2012	
Utility	\$ 63,088,000
General	26,812,000
	<u>89,900,000</u>
Scheduled Repayments 2012-2016	(\$64,850,000)
Potential New Debt Issues - 2012-2016	353,860,000
Expected Repayments on New Debt 2012-2016	<u>(\$37,304,000)</u>
Peak Debt 2012 - 2016	<u>\$ 341,606,000</u>

Debt levels are expected to peak around \$350 million in the 2016 timeframe. The majority of new debt includes capital for RRI and the construction of the wastewater treatment plant. Based on a recent utility study, it is expected that the wastewater treatment plant capital requirement may be higher than budgeted, thus more debt financing may be required. A debt limit of \$350 million is requested on the basis that it meets the City's projected maximum debt requirement for the foreseeable future.

The Saskatchewan Municipal Board approves debt limits on the basis of several factors related to the municipality's financial strength. An amount equal to one times operating revenues is a general rule of thumb, although other factors are considered. Regina's annual consolidated operating revenues for the last audited year (2010) are \$471 million. Assuming this rule of thumb is appropriate, the \$350 million debt limit being requested would be below this limit. The City of Saskatoon's debt limit is \$414 million.

RECOMMENDATION IMPLICATIONS

Financial Implications

The repayment of external debt and the related interest cost is budgeted in the annual operating budget of the Water and Sewer Utility and the General Operating Fund. A twenty-year financial model has been developed for the utility to monitor projected operating and capital costs along with revenues and the required capital funding. The external financing requirements for the Utility are accommodated within the financial model. At this time, the General Capital Program does not have the same long-term financial model.

However, an all encompassing City 30 year debt model for General and Utility capital has been developed to manage the debt capacity and future debt obligation requirements. The additional costs of debt related to general operating and utility operating will be included in the 2013 and future operating budgets.

The recommendations in this report do not result in any new debt being issued. As new debt is being considered in the future, it will require additional City Council approval. For each new debt issue, the Administration will review and analyze the financial capacity to service new debt as part of the decision making process.

Environmental Implications

None related to this report.

Strategic Implications

The Administration's request to increase debt limit falls within the general Debt Management Policy statement approved in 2011:

1. Debt is a part of the City's financial structure and is integrated into a broader long-term financial management plan.
2. Debt repayment will be structured so it is fair and equitable to those who pay and benefit from the underlying assets over time.
3. Debt is to be affordable, sustainable and adaptable to encompass any emerging need to support corporate priorities and approved long-term capital plans.

4. All new debt must be approved by Council and managed, monitored and reported upon by Administration.
5. All debt service requirements will be reviewed annually and used to calculate overall annual debt affordability (prior to committing to any capital program expansion).

Other Implications

Increasing the City's debt limit itself, does not have a material affect on the City's credit rating. However, the actual issuance of debt may have an impact on the City's credit rating. Credit rating agencies review the entire City's financial position including the ability to service debt costs in relation to its revenues. As the City's actual debt grows, there is a potential that the City's credit rating could be lowered based on the increased financial risk.

Accessibility Implications

None related to this report.

COMMUNICATIONS

Public Notice will be required for actual borrowing by Section 101 and 102 of *The Cities Act* and Bylaw 2003-8. This notice will be provided prior to the Committee and Council meetings when the Utility and General Capital Budgets for the relevant years are considered. In addition, notification regarding the Utility and General Capital Budgets and the Committee and the Council meetings when they are to be considered has been regularly included in the City Page.

DELEGATED AUTHORITY


Section 133 of *The Cities Act* authorizes the Saskatchewan Municipal Board to establish debit limits for each city. A request to the Saskatchewan Municipal Board to increase the debt limit requires a resolution of City Council.

Respectfully submitted,



Teresa Florizone, Controller
Finance

Respectfully submitted,



Brent Sjoberg,
Deputy City Manager and CFO

